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## **Things You Should Know About...PYRAMID SCHEMES**

Have you ever received a chain letter that asked you to mail one dollar to the top person on the list and forward the letter to 10 friends? If so, you have been solicited for an illegal pyramid.

### **What is a Pyramid Scheme?**

Pyramid schemes are illegal money-making ventures used by individuals, businesses, and small groups of people. A typical pyramid scheme involves a few people at the top who recruit participants to recruit more participants to offer something of value (usually money, but in some cases, time) to the organization. Participants are promised large sums of money if they successfully recruit others to pay money to join the pyramid. Pyramid schemes focus on the exchange of money and recruitment; usually, no legitimate product is sold.

### **How are Pyramid Schemes Disguised?**

Pyramid schemes may be disguised as games, chain letters, buying clubs, gifting clubs, motivational companies, mail order operations, or investment organizations.

Some pyramid schemes also call themselves multilevel marketing operations, but not all multilevel marketing companies are pyramids. The sale of legitimate products is what distinguishes multilevel operations from pyramids. If you are told you will earn commissions for recruiting new members rather than for selling something of value, the organization is probably an illegal pyramid.

### **How Are Pyramids Formed?**

Basically, a pyramid scheme is formed when a single promoter (or small group of promoters) collects money from a certain number of "friends" and instructs them to collect more money from their "friends." The cycle goes on from there.

### **Why Do Pyramids Fail?**

For a pyramid scheme to profit, there would have to be an endless supply of willing participants. However, the supply of participants is limited, and each new level of participants has less chance of recruiting others and a greater chance of losing money.

In fact, pyramids inevitably collapse because it is mathematically impossible to recruit the number of people required to support the pyramid. A nine-level pyramid, which is built when each participant gets six "friends" to join, would involve over ten million people!

1>6  
2>36  
3>216  
4>1,296  
5>7,776  
6>46,656  
7>279,936

8>1,679,616  
9>10,077,696

### **What Laws Do Pyramid Schemes Violate?**

Pyramid schemes violate state criminal and civil laws. The Illinois Criminal Code makes it a Class A misdemeanor (prison sentence of one year and \$1,000 fine) for any person to knowingly sell, offer to sell, or attempt to sell the right to participate in a pyramid sales scheme.

Pyramid schemes also violate the Illinois Consumer Fraud and Deceptive Business Practices Act, which is enforced by the Consumer Fraud Bureau of the Office of the Illinois Attorney General. The law allows the Attorney General to ask the court to impose a civil penalty in the amount of \$50,000 per violation.

### **Pyramid Scheme Reality**

- Pyramids have been made illegal by the Illinois legislature. If discovered, pyramids will be closed down by police, leaving participants subject to fines and possible arrest.
- Pyramids are deceptive. Participants in a pyramid, whether they mean to or not, are deceiving those they recruit. Few would pay to join if the odds stacked against them were fully explained.
- Pyramids are risky. Pyramiding is based on simple mathematics: many losers pay a few winners.

Better Business Bureau  
[www.bbb.org](http://www.bbb.org)

Federal Trade Commission  
[www.ftc.gov](http://www.ftc.gov)

**Office of the Illinois Attorney General**  
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